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Global Tax Alert

Cyprus expands its treaty network

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Executive summary

Cyprus' double tax treaty network has been extended with four new treaties becoming effective as of 1 January 2017. These include treaties with India, Latvia, Bahrain and Georgia.

The four new treaties are generally based on the Organisation for Economic Co-operation and Development Model Tax Convention framework with a number of modifications.

This Alert summarizes the key provisions with each treaty.

Detailed discussion

Treaty with India

The new treaty between Cyprus and India replaces the 1994 treaty and is effective as from 1 January 2017 in Cyprus and as of 1 April 2017 in India with respect to all taxes covered by the treaty.

The treaty provides for 10% withholding tax on dividends, interest (subject to an exemption for interest derived and beneficially owned by the government of a state, a political sub-division or a local authority) and on royalties and fees for technical services.

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As per the new treaty, capital gains derived by a resident of Cyprus or India also may be taxable in the country of investment (source taxation rights) even if the company whose shares are alienated is not a real estate rich company. This is a fundamental change as compared to the previous treaty which provided exclusive taxation rights to the residence country. However, gains from the alienation of shares that have been acquired at any time prior to 1 April 2017 are grandfathered and shall be taxable only in the country in which the alienator is a resident.

The treaty includes an article on assistance in the collection of taxes (article 27).

Treaty with Latvia

The treaty with Latvia provides for zero withholding tax on dividends if the recipient is a company and the beneficial owner of the income (10% in all other cases).

The treaty also provides for zero withholding tax on interest if the recipient is a company and the beneficial owner of the income (10% in all other cases) subject to an exemption for interest derived and beneficially owned by the government of a state, including political subdivisions and local authorities and for interest paid in respect of a loan guaranteed by that government, subdivision or authority.

Moreover, the treaty provides for zero withholding tax if the recipient is a company and the beneficial owner of the income (5% in all other cases).

Capital gains derived by a resident of Cyprus or Latvia are in general not taxable in the country of investment, except for gains relating to immovable property, gains from the alienation of movable property of a permanent establishment and gains arising on the sale of shares/comparable interests deriving more than 50% of their value directly or indirectly from immovable property situated in the country of investment.

The treaty includes an article on offshore activities.

Treaty with Bahrain

The treaty with Bahrain provides for zero withholding tax on dividends, interest and royalty payments.

Capital gains derived by a resident of Cyprus or Bahrain are not taxable in the country of investment, except for gains relating to immovable property and gains from the alienation of movable property of a permanent establishment. In particular, any gains arising from the sale of shares will only be taxed in the country of residence of the seller of the shares.

Treaty with Georgia

The treaty with Georgia also provides for zero withholding tax on dividends, interest and royalty payments.

Capital gains derived by a resident of Cyprus or Georgia are not taxable in the country of investment, except for gains relating to immovable property and gains from the alienation of movable property of a permanent establishment. In particular, any gains arising from the sale of shares will only be taxed in the country of residence of the seller of the shares.

Other developments

Cyprus has signed treaties with Ethiopia, Iran and Jersey that have not yet been ratified. It has also signed a protocol with Ukraine amending the existing treaty; the protocol also has not yet been ratified. Once ratified, the protocol is likely to enter into force on 1 January 2019.

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